

EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE FEBRUARY 13, 2008 PENSION BOARD MEETING

1. Call to Order

Chairman Dean Roepke called the meeting to order at 8:40 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present:

Linda Bedford
Donald Cohen
Jeffrey Mawicke
Marilyn Mayr
John Parish
Dr. Sarah Peck
Dr. Dean Roepke (Chairman)

Members Excused:

Thomas Weber (Vice Chairman)

Others Present:

David Arena, Director of Employee Benefits, Department of Administrative Services
William Domina, Corporation Counsel
Mark Grady, Principal Assistant Corporation Counsel
Gerald J. Schroeder, Interim ERS Manager
Jerry Heer, Director of Department of Audits
Vivian Aikin, ERS Administrative Specialist
Donald Campbell, ERS Project Manager
Dennis John, Chief Information Officer, IMSD-DAS
Sushil Pallai, Milwaukee County Program Manager
Bess Frank, Ad Hoc Oversight Committee
Steven Huff, Reinhart Boerner Van Deuren s.c.
Leigh Riley, Foley & Lardner LLP
Kristin Finney-Cooke, Mercer Investment Consulting
Terry Dennison, Mercer Investment Consulting
Trey Greer, EARNEST Partners
Jessie Magee, EARNEST Partners
Steve Schultze, *Milwaukee Journal Sentinel* Reporter
Ken Loeffel, Retiree
Virginia Schumann, Retiree

Yvonne Mahoney, Retiree
Jack Hohrein

3. Chairman's Report

The Chairman reported that Mr. Mawicke has been sworn in as a voting member of the Pension Board. The Chairman stated that Mr. Parish was re-elected as an employee member of the Pension Board for a three-year term beginning on March 1, 2008.

The Pension Board reviewed two handouts for the annual Pension Board meeting entitled "Role and Structure of the Pension Board" and "2007 Accomplishments." Ms. Mayr requested that the date of the annual meeting be included in the titles of the handouts. Ms. Mayr indicated that items such as these should be listed as a separate item of discussion on the meeting agenda under the Chairman's Report in order to give the public notice of the discussion. The Chairman and Mr. Grady directed that any comments on the handouts should be made to Mr. Huff and the Chairman by the end of the day before annual meeting. Ms. Mayr suggested adding to the Role and Structure of the Pension Board handout the fact that an appointed Pension Board member cannot be and must not have a family member who is a member of, or a beneficiary in, the Employees' Retirement System.

4. Minutes from January 16, 2008 Pension Board Meeting

Ms. Mayr stated that item 5(b) of the January 16, 2008 Pension Board meeting minutes should be changed to reflect that the Pension Board, and not ERS, is the insured party. Mr. Grady agreed that the Pension Board is the named insured and noted that ERS maintains the assets. Ms. Mayr also stated that item 7 of the minutes should be changed to read "V3 Status Report and Resource Request."

The Pension Board reviewed and unanimously approved the amended minutes of the January 16, 2008 Pension Board meeting with changes to item 5(b) clarifying the Pension Board is the insured party and to item 7, renaming it to read "V3 Status Report and Resource Request." Motion by Mr. Cohen, seconded by Mr. Parish.

5. Reports of Employee Benefits Director and Interim ERS Manager

(a) Retirements Granted

Mr. Schroeder presented the Retirements Granted Report for the prior year's retirements. He reported that there were 296 retirements in 2007 with \$145.7 million in benefits paid in total, of which approximately \$10.5 million was paid to the 95 members who elected back DROP payments. He noted that there were 107 deferred retirements in 2007. He stated that 17 retirements were granted in January 2008, and 2 retirees elected back DROPs.

Mr. Schroeder stated that the Retirement Office does more than just process retirement applications. He pointed out that in future months the Retirement Office will prepare activity reports and performance reports. He indicated that the Retirement Office will need to realign its roles and responsibilities with the implementation of the V3 computer system. He noted that he will provide the Board with updated Retirement Office roles and processes once they have been revised.

Ms. Mayr stated that she found the 2007 ERS retirements summary report very helpful. She inquired whether adding 2006 comparison numbers would be helpful. In response to Ms. Mayr's question, Mr. Schroeder indicated that he will provide monthly comparisons and year to date totals going forward.

(b) Employee Elections

(i) Update

Mr. Schroeder reported that County employee voting was conducted at 11 sites throughout the County and at two mobile locations. He noted that there were some difficulties administering the election due to bad weather and volunteers not showing up, but overall the election went well. He stated that the votes were counted several times to ensure the vote totals were correct. He announced that Mr. Parish won the three-year employee member election by receiving 297 votes to Mr. Kuntner's 202 votes. Mr. Schroeder stated that Mr. Felber won the one-year employee member election by receiving 297 votes to Mr. Stuller's 138 write-in votes.

Mr. Schroeder reviewed the contents of a letter received from Mr. Bailey, Deputy Inspector, Sheriff's Office, regarding possible improvements to the election process. Mr. Schroeder stated that in his letter, Mr. Bailey pointed out that the locations and hours of voting are not beneficial to second- and third-shift County workers. In his letter, Mr. Bailey also pointed out that the County is losing valuable productivity time by having workers vote during business hours.

Mr. Schroeder indicated that the City of Milwaukee Employees' Retirement System conducts voting through the mail. He noted that voting by mail allows for a smoother and cleaner election process. He also opined that voting by mail would be more efficient and cost effective because ERS would not need to utilize paid and unpaid volunteers. He estimated that conducting an election through the mail would only cost \$3,000, while the recent in-person elections cost around \$5,000. He stated that the City of Milwaukee Employees' Retirement System had voter turnout of approximately 50-65%, while ERS had about a 10% participation rate in its

most recent elections. For these reasons, Mr. Schroeder favors using mailed ballots in the next Pension Board election. Mr. Loeffel agreed with Mr. Schroeder and stated that mailed ballots are used for the retiree Pension Board member election. The Chairman thanked all the retirees who helped out during the most recent elections.

(ii) Possible Amendment to Rules 1020 and 1034

Mr. Huff presented a memorandum explaining possible rule changes to Rule 1020, Election of Employee Members of Board, and a draft version of Rule 1020, indicating where changes would be made. He explained that the Audit Committee did not endorse any of the possible changes, which came from a variety of sources. He reviewed some of the possible changes to Rule 1020, including not holding an election if only one candidate runs for a Pension Board position. Mr. Mawicke suggested that the Board should consider each possible change separately. Mr. Arena indicated that the possible changes are designed to streamline the election process.

Mr. Hohrein noted that only current ERS members can run for an employee member position on the Pension Board, while ERS and OBRA members are eligible to vote in these elections. Mr. Huff pointed out that the employee member and voter eligibility standards came from a previous Corporation Counsel memorandum. Mr. Grady stated that there is a rule that codifies these standards. Ms. Mayr noted that the issue of whether to allow write-in candidates is an important policy question that should be discussed further.

The Pension Board unanimously agreed to take the possible changes to Rule 1020 under advisement and to consider them at the next Pension Board meeting. Motion by Dr. Peck, seconded by Ms. Mayr.

(c) Cash Flow Report

Mr. Schroeder presented the ERS cash flow report. He stated that in early January there was a transfer of \$10 million for benefit payments from CRA and in late January there was a transfer of \$10 million from the international small cap investment manager. He indicated that he is working on getting the County to make a \$10 million reimbursement to ERS. He noted that ERS probably has sufficient funds for the February and March benefit payments, but he pointed out that ERS may need money from the County for benefit payments as soon as March. Mr. Heer suggested that the Pension Board review the County contribution schedule that was just prepared and revisit the County's contribution schedule at the March Pension Board meeting. Ms. Riley stated that the Pension Board needs to contingently approve the source for a draw on March 1, 2008.

The Pension Board unanimously agreed to send a letter to the County Executive explaining ERS's need for contributions from the County. Motion by Ms. Mayr, seconded by Mr. Parish.

In response to a question from Mr. Loeffel, Mr. Heer stated that the total contribution for this year is \$49.7 million. The Chairman stated that Mr. Loeffel is correct in his assertion that the County has known that it needed to contribute \$49.7 million to ERS for 13 months. Mr. Mawicke suggested that the Pension Board should devise a cash flow contingency source for the March benefit payments. Mr. Grady stated that Mercer should suggest the source of the funds for the March benefit payments.

The Pension Board unanimously agreed that it needs to have a cash flow contingency in place for March with advice for the source of the funds from Mercer with enough time to draw from the proper funds. Motion by Mr. Mawicke, seconded by Dr. Peck.

Ms. Bedford and Ms. Mayr suggested that Mr. Mueller should be present at all future meetings and that the current cash flow discussion should wait on Mr. Mueller's arrival at the current meeting.

Mr. Schroeder reported that Mr. Mueller discussed a \$10 million March reimbursement payment with the County Treasurer. The Chairman indicated that ERS received assurances that it will have sufficient cash flow in March, according to the County's ERS contribution schedule. Mr. Heer reported that \$10 million contributions from the County will be made to ERS on the first Tuesday of each month, including February 8, March 4, April 1, and May 6, with a \$9,794,000 contribution to be made on June 3.

The Pension Board voted 6-1, with Ms. Mayr dissenting, to rescind its resolution to send a letter to the County Executive discussing the need for the County's contributions to ERS. Motion by Mr. Mawicke, seconded by Mr. Parish.

Ms. Mayr stated that the County Executive should be reminded of his fiduciary duties. The other Pension Board members indicated that there is no longer any need to send a letter to the County Executive.

6. Investments

(a) Mercer Report

Mr. Dennison stated that the economy is in some distress and is either in, or heading for, a recession. He explained how some geographic areas are already in a recession. He indicated "credit default swaps" will be the next area to cause

economic distress. He reviewed how credit default swaps operate. He stated that there are approximately \$45 trillion in credit default swaps. He noted that some credit default swaps are netted against each other and will have no effect on the economy, but several trillion dollars of credit default swaps are real and will have an impact on the economy similar to the subprime mortgage crisis. He pointed out that banks and insurance companies will be adversely affected by credit default swaps. Mr. Dennison stated that the economic effect of credit default swaps will reduce lending capacity.

Mr. Dennison indicated that the small cap value asset class has decreased the most, which demonstrates the reason to diversify. He summarized how a diversified portfolio contains assets whose returns are not correlated, while an undiversified portfolio contains assets whose returns are correlated. He stated that diversifying a portfolio prevents simultaneous increases in value, but also protects against all of a portfolio's investments decreasing in value simultaneously. He pointed out that fixed income has been doing well, especially Treasuries, and is up approximately 7%. He noted that the international markets are slowing. He reported that emerging markets will suffer if the American markets suffer.

Ms. Finney-Cooke presented Mercer's Fourth Quarter Performance Evaluation report on ERS's portfolio. She reviewed ERS's asset allocation summary as of December 31, 2007. She reported that ERS's aggregate market value decreased by approximately 1% in the fourth quarter. She reviewed each investment manager's performance figures for 2007. She compared each of the investment manager's performance against its benchmark. She discussed the ERS portfolio's asset allocation by asset class. Ms. Mayr opined that the Pension Board was not given enough time to review the quarterly report. The Chairman requested that the Mercer fourth quarter performance report be added to the next Investment Committee agenda.

Ms. Finney-Cooke stated that Mercer downgraded GMO from an A rating to an A-, pointing out that an A- is still a very good rating. She noted that the rating adjustment is based on GMO's investment process and its move from its traditional quantitative products to other new investment products. In response to a question from Dr. Peck, Ms. Finney-Cooke stated that GMO's new product offerings are stretching its investment talent thin. Ms. Finney-Cooke indicated that Mercer will continue to monitor the developments at GMO.

Ms. Bedford asked where the improvement in the economy will come from. She stated that she believes a tax rebate will not bail out the economy. Mr. Dennison stated that this is a great question and indicated that the economy is headed towards or in something not like a typical recession. He indicated that there is not an economic imbalance, such as when there are too many cars for sale, but rather there are elements of a system breakdown. He opined that the improvement of the

economy will come through more skillful management and understanding of the economy by the worldwide central banks. He noted that data from U.S. banks is available to the Federal Reserve more quickly now, which will help the Federal Reserve determine how to improve the economy. He pointed out that there has been a staggering amount of bad investments. He stated that he believes that no one will bail out these bad investments and that the government does not even have enough money to bail them out. He indicated that some bond defaults will occur and that there will be some reduction of pressure on adjustable rate mortgage resets in 2008. He discussed how there will still be mortgage securities and collateralized debt obligations that become worthless. He pointed out that some banks may fail or have reduced lending capacity. Dr. Peck stated that the current state of the economy also strains the home equity markets. Mr. Dennison stated that many professionals do not know the true extent of the subprime mortgage problems. Ms. Bedford pointed out that the Pension Board should be mindful of how respondents to the ERS investment custodian RFP are affected by the current economy because a respondent could be one of the banks in trouble.

Mr. Mawicke inquired how the current economy impacts the long-term investment of money. In response, Mr. Dennison provided the example of the State Street Global Advisors limited duration bond fund that lost 44%. He also indicated that fixed income has not been so safe, and that even money market sponsors have had to step in to hold values at \$1. He indicated that many investors exceeded their risk tolerance. He discussed how ERS is a mature plan, as it is paying out more than it is taking in, and that it will implode if it does not take in more than it pays out. He noted that either contributions or returns must increase to stay viable. He stated that there are no simple answers and all parts are interrelated, which may mean that ERS might need to reassess its asset allocation.

Mr. Mawicke stated that the Pension Board must realize that ERS is a mature fund that is not satisfying its actuarial rate of return. He indicated that the Pension Board cannot fix a fundamentally flawed system from the 1990's and that it must be retuned actuarially. He opined that ERS's economic return expectations must be reduced because the Pension Board cannot continually achieve the current actuarial rate of return.

Ms. Bedford suggested that the Pension Board rebalance its asset allocation. Ms. Finney-Cooke reported that the ERS asset/liability study is due to be redone by the end of 2008. Ms. Mayr asked how the Pension Board can make the public aware of this issue. Mr. Mawicke responded that the public who attend the meetings need to see that the high, safe returns of the 1990's are not achievable over the long term. Ms. Mayr inquired as to how the public can be made aware of ERS's current situation at the annual meeting. Mr. Dennison stated that he could make a statement that ERS has underappreciated its risk in attempting to achieve

its returns. He pointed out that for ERS to achieve an 8.5% return, building on its portfolio base of low-yield bonds, assumes that ERS would invest the remainder in 100% emerging market equities, which is very risky. He indicated that he will discuss possible investment options that could achieve higher rates of return at the annual Pension Board meeting. In response to Ms. Mayr's question, Ms. Riley stated that if at some point the County refuses to make its contribution to ERS, members could bring a lawsuit, but they may not win or there might not be any money to make a contribution. She indicated that there are no statutes or ordinances on point, only common law fiduciary duties. Mr. Mawicke indicated that if ERS reaches that stage, it will have far larger problems.

Ms. Finney-Cooke presented Mercer's Flash Report for January 2008. She stated that ERS had a market value of just under \$1.55 billion at the end of January and that ERS's aggregate market value decreased by 3.4% during January, which outperformed the reference index by 10 basis points. She reviewed the performance of each asset class.

Ms. Finney-Cooke indicated that most managers underperformed in February, but there are no real concerns given that this is only a short term snapshot. She particularly noted that real estate was behind its benchmark. She stated that all investments are within their asset diversification targets. She reported that the contract amendment with ING was signed and they will be moving the assets from a domestic to a global REIT portfolio. She discussed the progress of a search for a new investment manager, to replace Hotchkis & Wiley. She detailed the temporary move to Russell Mid Cap Value iShares, while the Pension Board completes its search for an investment manager.

The Pension Board excused Ms. Finney-Cooke and Mr. Dennison from the meeting.

(b) Investment Manager Report – EARNEST Partners

Mr. Greer and Mr. Magee distributed a report on EARNEST Partners' management of ERS's mid cap equity strategy and presented it to the Pension Board on behalf of EARNEST Partners. Mr. Greer reported that EARNEST Partners outperformed its benchmark by 75 to 100 basis points over the past three years. He stated that EARNEST Partners focuses solely on the mid cap equity market and that it does not stray from its target market. He noted that there has been a recent move to higher quality securities, which has helped the ERS portfolio. He indicated that the value of the ERS portfolio is approximately \$25 million. He explained the composition and asset distribution of the ERS portfolio. He discussed the ERS portfolio's performance for 2007, focusing on the economic factors that affected the fourth quarter returns. He pointed out that while the market has been down, EARNEST Partners outperformed its benchmark in

2007, including the fourth quarter. In response to a question from Dr. Peck, Mr. Greer stated that the ERS portfolio's cumulative rate of return since inception is 37.33%, compared to 36% for the Russell Mid Cap.

Mr. Magee reviewed the performance attribution of three stocks in the ERS portfolio, Express Scripts, Eaton Vance and Newfield Exploration. He stated that EARNEST Partners picks stocks based on their fundamentals, which is a key performance driver. Dr. Peck asked whether EARNEST Partners monitors sector overweighting. In response, Mr. Magee indicated that EARNEST Partners monitors its ability to meet return targets without exceeding risk targets.

Mr. Greer pointed out that sector weighting is only 1 of 50 risk factors reviewed to determine whether EARNEST Partners is not exceeding the risk tolerance for a particular portfolio. He reviewed the price to earnings, earnings growth, return on equity and the debt to capitalization characteristics of the ERS portfolio against its benchmark. Mr. Magee reported that, as of December 31, 2007, EARNEST Partners has provided ERS with an \$11.5 million investment return.

Mr. Magee explained EARNEST Partners' investment philosophy. He stated that EARNEST Partners begins with a universe of 800 stocks which are then initially screened through EARNEST Partners' Proprietary Return Recognition Pattern. He noted that the Return Recognition Pattern uses 36 subclusters of information, based on 30 years of historical data that is split into time periods to identify 150 high potential stocks. Mr. Magee noted that 95% of the time is spent in teams focusing on portfolios to contain downside risk, and to scrutinize the companies to ultimately create a portfolio containing 50 to 60 stocks. Mr. Magee answered Dr. Peck's question on how EARNEST Partners controls downside risk by stating that EARNEST Partners focuses on benchmark risk.

Mr. Dennison stated that many managers have become bottom-up stock pickers. Mr. Dennison inquired how EARNEST Partners avoids picking stocks that are in risky sectors. Mr. Magee replied that some companies in an industry perform better than others. In response to a question from Mr. Dennison regarding EARNEST Partners' investment in Pulte Corporation, Mr. Greer stated that Pulte is a large builder that is trading at 20% of its book value and at some point in the future it will recover and will be positioned as one of the best capitalized builders. In response to a question from Mr. Dennison, Mr. Greer stated that EARNEST Partners has sold Countrywide Financial since December 31, 2007. He noted that Countrywide was the largest independent mortgage originator. He indicated that Countrywide wrote some bad loans and the short term liquidity market dried up, which created large problems. He pointed out that EARNEST Partners picked Countrywide for the right reasons, but the investment did not work out as expected because the market conditions were unfavorable for Countrywide.

The Pension Board excused Mr. Greer and Mr. Magee from the meeting.

(c) Investment Committee Report

Dr. Peck reported on the February 7, 2008 Investment Committee meeting. She stated that the Investment Committee revisited the issue of asset allocation. She indicated that the Investment Committee will have an educational session on liability driven investments, which will involve a discussion of ERS's cash flow needs and compare those needs against the duration of its investments. She pointed out that the investment committee will also hold an educational session on alternative investments. She also noted that the Investment Committee discussed Sudan divestment and its attendant returns and costs. She stated that it would violate fiduciary duties to divest now because of its impact on the diversification of the ERS portfolio. She reviewed the Investment Committee's plans to conduct due diligence trips to investment managers. She also reported that the Investment Committee discussed the possible investment in private equity funds and stated that Ms. Bedford will provide Mercer with the preliminary details on a local fund.

7. Implementation of New Technology Software

(a) Update

Mr. Campbell reported on the progress of the V3 System. He reviewed the V3 project timeline and stated that the V3 implementation team is already planning a go live testing weekend for early October. He reported on the progress of the data cleansing and data conversion processes. He indicated that the expected completion date of the V3 project is January 2009.

He discussed the overall Vitech Project cost summary. He noted that ERS has contracted to pay approximately \$7.7 million to Vitech as of February 8, 2008. Ms. Mayr inquired why the V3 status report states that the V3 project costs are \$8.9 million. Mr. Campbell indicated that the \$8.9 million figure is the estimated cost of the project that will be paid to all parties, while the \$7.7 million is the amount that will be paid Vitech for the entire project. He stated that the total amount paid to Vitech through February 8, 2008 was \$3,873,123.77. Mr. Grady explained the differences between the two cost reports.

(b) V3 Project Resources Request

Mr. Arena discussed the need for additional resources for the Vitech implementation project. He indicated that the project is at a crucial stage. He reported that he had talked with Mr. Campbell and Mr. Schroeder about the additional resources that are needed by year end to complete the project. Mr. Arena stated that the project is bigger than initially expected, it has been understaffed and there needs to be a system in place to complete the project. He explained that several positions need to be added to complete the project by the

end of the year. He pointed out that the project needs immediate resources without the constraint of the RFP process and that sole source funding should be used because of the time frame. He noted that sole source funding was used previously by the County to complete the Ceridian project. He acknowledged that using sole source funding is not his preferred method of operating.

Mr. Campbell indicated that it is common to add people and create new positions at this stage of large scale system implementation. He stated that the addition of the new positions will allow him to focus on completing the project. Mr. Arena stated that the project roles were not defined well in the previous budget. He provided an overview of the additional positions necessary to complete the Vitech project on schedule. He discussed the need to add a benefits analyst. He indicated that the addition of this position was requested previously. He indicated that the Retirement Office is ready to employ a business systems analyst on a contract basis for the remainder of 2008 on a full-time basis and as part of the Retirement Office's 2009 budget. Mr. Arena also indicated that the Retirement Office needs a pension research analyst. He noted that Mr. Schroeder recommended the establishment of such a position to codify the Retirement Office's procedures. Mr. Schroeder also pointed out that the Retirement Office needs to draft procedures and put guidelines into place. Mr. Arena stated that this consultant position should be a budgeted position.

Mr. Arena noted that the total cost of the additional resource request would be approximately \$680,000. He indicated that this is a critical stage of the Vitech project. Mr. Grady stated that it was not discovered until recently that there needed to be more staff at Milwaukee County to implement Vitech. He noted that the Retirement Office staff is too busy to fill these extra roles and the increase in staff would only be temporary. He noted that several of these requested positions were new positions and would require the addition of an independent contractor, while some requests were expansions of current positions. Mr. Cohen stated that he is concerned because the Pension Board heard this speech requesting additional resources several months ago and asked whether the Pension Board will be asked for additional resources in a month or so. Mr. Arena responded that there are many unknowns and unanticipated needs when converting a system. Mr. Campbell stated that he did not expect the issue to come up again but he cannot be certain. He pointed out that Mr. Schroeder has instituted best practices that might necessitate an increase in the project's cost.

The Chairman stated that Mr. Arena had called a meeting to discuss the preliminary resource request and the Chairman noted that he and Ms. Archer, the Acting Director of the Department of Administrative Services ("DAS"), attended the meeting. The Chairman noted that DAS just went through a similar project with the Ceridian conversion. He indicated that DAS and the County believe that

additional resources are necessary to have the Vitech conversion occur on time and mesh with the Ceridian System. The Chairman asked whether the current situation is within the sole source guidelines of the County. Mr. Heer responded that sole sourcing is a legal exception to the RFP process. He noted that the project's timetable does not allow for the full RFP process. He indicated that IMSD has assured the County that the requested services are properly priced. Mr. Heer stated that the Pension Board would be hiring the firm and that the chosen firm would provide the individual or a person of like quality if that person leaves in order to ensure that the project is completed on time.

Ms. Bedford inquired about the possibility of issuing an RFP within a short time frame. Mr. Heer responded that an RFP would add cost and that the project management team is not willing to put the project at risk. Mr. Grady stated that it would not be honest to conduct an RFP if the process is skewed to choose a provider that is really needed under the circumstances. Mr. Arena discussed why it is important to hire professionals as soon as possible in order to prevent a project delay. He pointed out that Vitech could still make future financial demands to complete the project, but Mr. Pallai, the Program Manager, will help manage that issue if it arises.

Mr. Campbell stated that the project management team is asking for three things from Vitech: auditability, automation and security. He pointed out that the requests presently before the Board focus directly on implementing the three things the project management team is requesting. In response to Ms. Mayr's question, Mr. John, the Chief Information Officer of IMSD-DAS, reported that the proposed rates are reasonable and competitive. Mr. Campbell noted that the individuals to be employed have performed work on the Ceridian project, which will result in time not being lost and expenses not being incurred as individuals ramp up to work on Vitech. Mr. Campbell indicated that the total cost to ERS would be \$655,500, which is what Mr. Arena and Mr. Campbell initially requested, minus the \$25,400 requested for the imaging of Pension Board meeting minutes from 1937 until now, which is being referred to the Audit Committee for further review. Mr. Campbell estimated that 15% of the total cost should be billed back to the County because that is the portion of the project devoted to the County's life and health insurance modules.

Mr. Hohrein stated that ERS should not pay for bills for the County's share of retiree life. Mr. Campbell repeated that every resource working on the Vitech project splits out their time devoted to the County's retiree life and health insurance portions of the project. In response to Ms. Mayr's question, Mr. Heer and Mr. Grady replied that the County's life insurance expense will be accounted for separately. Mr. Campbell stated that Mr. Mueller is tracking this expense monthly and it will be trued up at the end of the project. In response to

Mr. Loeffel's question, Mr. Heer indicated that he will look at whether review by the procurement standardization committee is required for this type of RFP.

The Pension Board unanimously agreed to the request for additional resources for the V3 project using sole source funding without an RFP with the exception of the imaging of the Pension Board meeting minutes, which will be referred to the Audit Committee for further discussion, and to bill the County for its portion of the cost related to the implementation of the life and health insurance aspects of the system. Motion by Mr. Parish, seconded by Ms. Bedford.

8. Vitech Implementation Oversight Committee Report.

Mr. Parish reported that the Vitech Implementation Oversight Committee has met since the last Pension Board meeting, but he has nothing to add to the previous discussion regarding the status of Vitech project.

9. Report of the Task Force on Pension Funding

Mr. Cohen reported that the Task Force on Pension Funding has not met since the last Pension Board meeting. Mr. Heer indicated that he had nothing to add. Ms. Riley distributed a handout on the summary of pension obligation bonds, and no discussion occurred. Mr. Grady suggested that a discussion of the handout should be tabled and added to a future agenda because it was not on this month's agenda. The Chairman stated that a discussion of pension obligation bonds will be added to a future Pension Board meeting agenda.

10. Audit Committee Report

Mr. Parish reported on the January 24, 2008 Audit Committee meeting and the minutes of that meeting. He stated that the annual audit to be performed by Virchow Krause & Company will be more extensive than in the past due to changes in auditing standards. He indicated that ERS and OBRA must file for determination letters from the Internal Revenue Service by January 31, 2009. He noted that the Audit Committee discussed the employee member elections and making improvements to the election rules. Dr. Roepke pointed out that discussion of the possible changes to Rule 1020 was tabled until the next Pension Board meeting. Mr. Parish provided an update on the status of the investment custodian RFP process and noted that responses are due by February 29, 2008.

11. Buck Consultants' ("Buck") Contract Amendment – Fees

The Chairman stated that Mr. Grady was absent from the last meeting and, as a result, the Buck contract amendment was tabled. Mr. Grady indicated that the current contract with Buck is for basic valuation work and provides for an annual fee increase linked to the yearly percentage increase of the Consumer Price Index for all Urban Consumers. He

stated that the same contract also covers supplementary services that Buck provides, which do not have a fee increase component. He reported that Buck is asking for an annual increase in its fees for its supplementary services at the rate used for its basic valuation work. Mr. Grady suggested that if the Pension Board agrees to a contract amendment, it should lock in a rate that provides for an automatic increase at the Consumer Price Index for All Urban Consumers rate for all years for both fee components. In response to Ms. Mayr's question, Mr. Grady responded that the Buck contract is a five-year contract. Ms. Mayr asked what the total cost of the contract amendment would be and she requested that a fiscal impact note be prepared. In response to a question from Mr. Mawicke, Mr. Grady answered that he has been negotiating with Buck on the fee increase in the absence of an ERS manager. Dr. Peck and Mr. Mawicke indicated that the Pension Board should find out what was paid to Buck last year for other services to determine the likely cost impact of an increase.

The Pension Board unanimously agreed to table the discussion of the Buck fee increase for its supplementary services and to place the issue on the March meeting agenda for discussion with a fiscal note. Motion by Ms. Mayr, seconded by Mr. Mawicke.

12. Appeal of Denied Disability Pension Application – Jaime Morice

Mr. Grady reported that Mr. Morice withdrew his appeal.

13. Continuing Education/Board Retreats/Training and Professional Organizations

(a) International Foundation of Employee Benefit Plans – Investment Course on Hedge Funds, Real Estate and Alternative Investments

The Chairman stated that International Foundation of Employee Benefit Plans is holding an investment course on hedge funds, real estate and alternative investments in San Francisco from June 23, 2008 through June 25, 2008.

The Pension Board unanimously approved the attendance of any Pension Board member at the International Foundation of Employee Benefits Plan's investments course on hedge funds, real estate and alternative investments. Motion by Ms. Bedford, seconded by Mr. Parish.

(b) Government Finance Officers Association Annual Conference

The Chairman reported that Mr. Mueller asked to attend the 102nd Annual Government Finance Officers Association, regarding building a sustainable future, which will be held in Fort Lauderdale from June 15, 2008 through June 18, 2008.

The Pension Board unanimously approved the attendance of Mr. Mueller at the Government Finance Officers Association Annual Conference. Motion by Ms. Mayr, seconded by Mr. Parish.

14. Future Topics

The Chairman requested that Mr. Schroeder update the future meetings topics list to include all additions since the October 2007 Pension Board meeting and to delete all of the items that have been completed or are moot.

15. Pending Litigation

The Chairman appointed Ms. Bedford as temporary Vice Chairman of the Board.

Ms. Bedford, acting as Vice Chairman, moved that the Pension Board adjourn into closed session for the purpose of receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation.

The Board voted 6-0-1 by roll call vote, with Ms. Mayr abstaining, to enter into closed session to discuss items 15(b), 16 and 17.

(a) Hanson v. ERS

In open session, Mr. Grady stated that the Hanson v. ERS litigation is now complete because the Circuit Court Judge affirmed the Pension Board's decision and Mr. Hanson did not file an appeal within the allowable time period.

The Board discussed the following pending litigation in closed session:

(b) Milwaukee County, et al. v. Mercer Human Resource Consulting

16. Report on Special Investigation

The Board discussed the report on special investigation in closed session.

17. Report on Compliance Review

The Board discussed the report on compliance review in closed session.

18. Adjournment

The meeting adjourned at 1:25 p.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board